

LYNCHBURG CITY COUNCIL

Agenda Item Summary

MEETING DATE: **June 28, 2005, Work Session**

AGENDA ITEM NO.: 3

CONSENT:

REGULAR: **X**

CLOSED SESSION:

(Confidential)

ACTION: **X**

INFORMATION:

ITEM TITLE: **Proposed Compensation Adjustments Effective January 4, 2006**

RECOMMENDATION: Approve a plan, effective January 4, 2006, to provide an average of a three percent (3%) across-the-board compensation adjustment to those City employees who have exhibited satisfactory performance. In addition, authorize the use of up to \$250,000 for one-time performance based bonuses on January 4, 2006 and establish a compensation reserve of \$500,000. Amend the FY 2006 Budget and appropriate \$500,000 to implement the plan.

SUMMARY: During Council's last FY 2006 Budget work session staff presented charts (copies attached) showing how inflation and the costs of health care have eroded employee take home pay since 2000. At that time Council seemed willing to make compensation a priority in the development of the FY 2007 Budget. I am recommending that Council take a step demonstrating that commitment now.

The approved FY 2006 Budget includes approximately \$500,000 in recurring funds for a 1% across-the-board compensation increase effective July 1, 2005 and an additional \$500,000 in non-recurring funds to be used for performance based rewards. Since approval of the budget it has become apparent that neighboring jurisdictions are providing pay increases in the three to five percent (3%-5%) range. Our commitment to maintaining market competitive wages and the potential erosion of take home pay due to health care costs have lead me to make the following alternative proposal for compensation adjustments in FY 2006.

Council is asked to commit \$500,000 from the unexpended FY 2005 General Fund Reserve for Contingencies (which has a balance of \$784,918) to compensation adjustments in FY 2006. If approved, this would provide total resources of \$1.5 million (\$500,000 recurring and \$1million non-recurring) to apply to compensation adjustments effective January 4, 2006 (the start of the first pay period in the new calendar year).

With those resources Council is asked to approve a compensation adjustment averaging three percent (3%) across the organization for those employees who have exhibited satisfactory performance. This will cost approximately \$750,000 for the last six months of the fiscal year and \$1.5 million on an ongoing basis. The 3% increase would include a two percent (2%) baseline increase for all employees who have exhibited satisfactory performance and an additional increase to average one percent (1%) based on market disparity and performance. Individual employees whose pay was farther from a market benchmark and who had exhibited higher performance would receive higher increases. The additional increase could range from zero to four percent (0%-4%) depending on a number of factors.

The remaining \$750,000 in resources would be used in two ways. First, \$250,000 would be utilized to provide one-time performance based rewards. Second, \$500,000 would be set aside in a Compensation Reserve to serve as a buffer to offset the impact on the FY 2007 Budget in the event that finding an additional \$1 million in recurring revenues became a challenge.

Alternatives to this proposal would be: 1) to provide an across the board three percent (3%) increase to all employees with satisfactory performance and utilize the remaining \$750,000 for performance based rewards; 2) to provide a compensation adjustment of one percent (1%), effective July 1, 2005, with performance based rewards as in the approved budget; 3) some variation of the above options utilizing available resources.

PRIOR ACTION(S): As noted above.

FISCAL IMPACT: Providing for an average overall increase of 3% would require the identification of an additional \$1 million in recurring funds for subsequent budget years starting in FY 2007. The creation of a Compensation Reserve of \$500,000 would buffer the impact on the FY 2007 Budget.

CONTACT(S): Kimball Payne

ATTACHMENT(S): Charts showing take home pay erosion.
Resolution

REVIEWED BY: lkp

RESOLUTION

BE IT RESOLVED THAT the Fiscal Year 2006 General Fund Budget is amended and funds in the amount of \$500,000 are appropriated, with resources of \$500,000 from the unexpended balance of the FY 2005 General Fund Reserve for Contingencies, to be used for FY 2006 compensation adjustments and to establish a Compensation Reserve.

Introduced:

Adopted:

Certified:

Clerk of Council

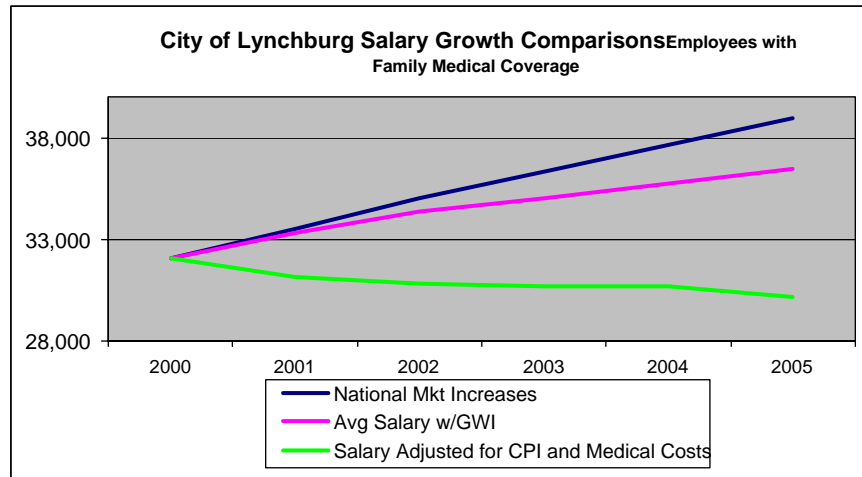
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Salary Comparison

Typical City Salary Increases Adjusted for Consumer Price Index and Out of Pocket Medical Increases
Based on Average Employee Salary in 2000
Employees with Family Medical Coverage

Fiscal Year	General Wage Increase	Avg Salary w/GWI	CPI	Difference Between GWI and CPI	Salary Adjusted for CPI	Annual Medical Coverage Rate	Avg Medical Out of Pocket Costs	Salary Adjusted for CPI and Medical Costs	National Mkt Increases	+/- Buying Power since 2000
2000		32,055						32,055	32,055	
2001	4.0%	33,337	3.4%	0.6%	32,247	264	845	31,138	33,497	-917
2002	3.0%	34,337	2.8%	0.2%	32,312	288	1,232	30,791	35,005	-1,264
2003	2.0%	35,024	1.6%	0.4%	32,441	288	1,458	30,695	36,335	-1,360
2004	2.0%	35,725	2.3%	-0.3%	32,344	336	1,331	30,677	37,607	-1,378
2005	2.0%	36,439	2.7%	-0.7%	32,117	312	1,660	30,144	38,923	-1,911

Note: Plan changes implemented in 2003 (increased deductible and pharmacy co-insurance)



**Typical City Salary Increases Adjusted for Consumer Price Index and Out of Pocket Medical Increases
Based on Average Employee Salary in 2000
Employees with No Dependent Coverage**

Fiscal Year	General Wage Increase	Avg Salary w/GWI	CPI	Difference Between GWI and CPI	Salary Adjusted for CPI	Annual Medical Coverage Rate	Avg Medical Out of Pocket Costs	Salary Adjusted for CPI and Medical Costs	National Mkt Increases	+/- Buying Power since 2000
2000		32,055						32,055	32,055	
2001	4.0%	33,337	3.4%	0.6%	32,247	0	316	31,931	33,497	-124
2002	3.0%	34,337	2.8%	0.2%	32,312	0	491	31,821	35,005	-234
2003	2.0%	35,024	1.6%	0.4%	32,441	0	581	31,860	36,335	-195
2004	2.0%	35,725	2.3%	-0.3%	32,344	0	555	31,789	37,607	-266
2005	2.0%	36,439	2.7%	-0.7%	32,117	0	662	31,455	38,923	-600

Note: Plan changes implemented in 2003 (increased deductible and pharmacy co-insurance)

